LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6305 | **NOTE PREPARED:** Jan 30, 2006
BILL NUMBER: HB 1081 | **BILL AMENDED:**

SUBJECT: Home Energy Sales Tax Exemption.

FIRST AUTHOR: Rep. Yount | **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
X FEDERAL

Summary of Legislation: This bill provides a Sales Tax exemption for sales of home energy to a person who acquires the energy through a home energy assistance program administered by the Division of Family Resources (DFR).

Effective Date: Upon passage; July 1, 2006.

Explanation of State Expenditures: *Department of State Revenue:* This bill would require the Department to adopt rules and procedures associated with implementing this exemption. Any administrative costs incurred will presumably be covered using existing staff and resources.

Explanation of State Revenues: *Summary Information:* This bill provides a Sales Tax exemption for sales of home energy involving:

(1) a person who is acquiring the energy through a home energy assistance program administered by the DFR; and
(2) the energy being acquired is electrical energy, natural or artificial gas, water, steam or steam heating service.

Creating a Sales Tax exemption for these home energy sales is expected to reduce state Sales Tax revenue by approximately $2.24 M each fiscal year, beginning in FY 2007. However, it should be noted that the extent of this reduction will depend in large part on the federal appropriations for the Low-Income Heating and Energy Assistance Program (LIHEAP).

Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

A $2.24 M reduction in Sales Tax revenue would reduce the annual distributions to these funds by the following amounts.

Fund	Reduction
Property Tax Replacement Fund	$ 1,120,000
State General Fund	1,101,901
Public Mass Transportation Fund	14,224
Commuter Rail Service Fund	3,136
Industrial Rail Service Fund	739
Total	**$ 2,240,000**

Background Information: General Fund money is not used to support the energy assistance programs administered by the Division of Family Resources. Funding for the state's energy assistance program comes from federal sources and dedicated state funds.

Since the early 1980's, the federal government has annually appropriated funds to states to provide energy assistance to low-income families. Indiana's program is divided into two components; the Energy Assistance Program (EAP) and the Weatherization Assistance Program (WAP). The program is primarily funded through the federal LIHEAP block grant. In accordance with federal guidelines, the state uses about 90% of the federal appropriation for energy assistance programs, and the remaining funds for weatherization programs. These programs also receive funds from the state's dedicated Oil Overcharge Accounts. These accounts were funded by settlements between the federal government and oil companies.

The state's energy assistance program provides grants for winter heating assistance and summer cooling assistance. Additionally, the program provides eligible persons with a one-time credit, as necessary, to prevent heat from becoming disconnected. Indiana's program currently provides assistance to persons within 125% of the federal poverty guidelines.

Energy assistance funds are distributed through a statewide network of 24 Community Action Agencies (CAA). In accordance with federal law, CAAs and the state retain a percentage of the federal grant money to cover administrative costs.

Over the past three fiscal years, federal LIHEAP benefits have provided approximately $38.7 M in direct benefits to Indiana residents each year. Funding for energy assistance from the Oil Overcharge Accounts has ranged from $2 M to $4 M each year. Funding from the Oil Overcharge Accounts is expected to last through FY 2006.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Family and Social Services Administration.

Local Agencies Affected:

Information Sources: Tom Scott, Program Specialist, Family and Social Services Administration, 232-7015; U.S. Department of Health and Human Services, Administration for Family and Children, Division of Energy Assistance.

Fiscal Analyst: Adam Brown, 317-232-9854.